Nikkei India Manufacturing PMI™

Manufacturing economy rebounds from rupee-demonetisation downturn

Key points:

- Both new orders and output rise during January
- Firms scale up buying levels, but leave payroll numbers unchanged
- Input cost inflation at 29-month high

Data collected January 12-25

Indian manufacturing output increased during January on the back of rising order books. Greater production needs encouraged companies to purchase more inputs, but failed to generate jobs in the sector. On the price front, input cost inflation climbed to its highest mark since August 2014, while output charges were raised for the eleventh successive month.

Having deteriorated in December for the first time in one year, the health of India's manufacturing economy improved in the opening month of 2017. The headline Nikkei India Manufacturing *Purchasing Managers' Index*™ (*PMI*)™ was up from 49.6 to 50.4 in January.

The main factors contributing to the above-50.0 PMI reading were growth of both new orders and output. Rates of expansion were only slight, but reversed the contractions noted in December. Anecdotal evidence highlighted a return to normal market conditions and a subsequent improvement in demand. In contrast to the upturn in total new business, new export orders fell again. Having eased since the previous month, the rate of reduction was marginal.

Intermediate goods was the bright spot in January, with rates of expansion in both new work and production outstripping those seen in the consumer goods sector. Meanwhile, investment goods dipped into contraction.

Survey data pointed to an increasing degree of pressure on the capacity of manufacturers' operations as backlogs rose at a quicker rate than in December. In spite of this, companies kept their payroll numbers unchanged in January.

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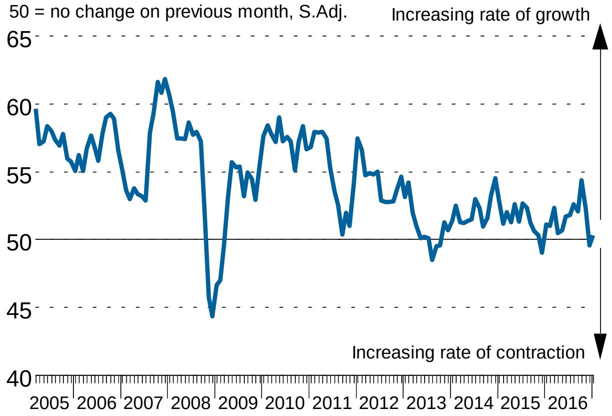

Sources: Nikkei, IHS Markit

Holdings of finished goods decreased in January, amid evidence from survey participants of orders being fulfilled directly from stocks. The rate of depletion was marked, and the quickest since last May. Concurrently, pre-production inventories declined slightly, but at a pace that was the fastest in over three years.

Manufacturers attempted to replenish their input stocks by purchasing greater quantities of raw materials and semi-finished items in January. That said, the overall rate of growth was only slight and well below its long-run average.

Rates of input cost inflation accelerated in each of the three tracked sectors, led by intermediate goods. Across the manufacturing economy as a whole, input cost inflation climbed to a 29-month peak. Where cost burdens rose, there were mentions of higher prices paid for metals, chemicals, plastics, textiles and paper.

As part of ongoing efforts to protect margins, Indian manufacturers raised their own selling prices for the eleventh successive month in January. However, the rate of inflation remained only marginal.

Newly-released future output data, which have been collected since April 2012, showed a pick-up in manufacturers' confidence during January. Promotional activities and better economic conditions are anticipated to underpin production growth over the coming 12 months.

Comment:

Commenting on the Indian Manufacturing PMI survey data, **Pollyanna De Lima,** Economist at IHS Markit and author of the report, said**:**

"The Indian manufacturing economy recovered from the one-off downturn that hit the sector in December following the withdrawal of high-value banknotes. January saw only modest increases in order books, production and buying levels, but the quick rebound will be welcome news to policymakers.

"Improving confidence among firms bodes well for the outlook, with the expansion in manufacturing output likely to pick up pace in coming months. IHS Markit forecasts a 6.9% rise in GDP for FY16, with growth anticipated to accelerate to 7.4% in FY 2017."

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)
Pollyanna De Lima, Economist
Telephone 44 1491 461 075
Email pollyanna.delima@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone 44 207 260 2234
E-mail joanna.vickers@ihsmarkit.com

Bernard Aw, Economist
Telephone 65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)
Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone 81-3-6256-7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei India Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper and Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei India Manufacturing *PMI*™ is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.
Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@ihsmarkit.com.

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